MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

ANNUAL REPORT

For the Year Ended
December 31, 1986

87-05909/

Municipal Financing Corporation of Saskatchewan

Letter of Transmittal

Regina, Saskatchewan
February 27, 1987

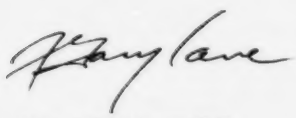
To His Honour,
The Honourable Fred W. Johnson,
Lieutenant-Governor of the Province of Saskatchewan.

Sir:

I have the honour to submit herewith the annual report of the Municipal Financing Corporation of Saskatchewan for the year ending December 31, 1986, including the financial statements therefor, duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with The Municipal Financing Corporation Act.

I have the honour to be, Sir,

Your obedient servant,



Hon. J. Gary Lane, Q.C.
Minister of Finance
and Minister Responsible,
Municipal Financing
Corporation of Saskatchewan.

Municipal Financing Corporation of Saskatchewan

DIRECTORS

Honourable J. Gary Lane, Q.C.

Honourable H. J. Swan

Honourable N. H. Hardy

Honourable P. Smith

OFFICERS

Mr. M. I. Meiklejohn
General Manager

Mr. W. D. Baldwin
Secretary

Municipal Financing Corporation of Saskatchewan

Annual Report 1986

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the authorized debentures sold each year by Saskatchewan local governments.

During the year under review, the Corporation participated in the financing of 56 projects throughout Saskatchewan by purchasing $13.31 million of municipal debentures. At year end, the Corporation had outstanding commitments to purchase a further $3.511 million upon delivery of the debentures.

The Corporation recorded net earnings of $2.275 million for 1986. This represents a 14% increase over 1985 when the Corporation reported net earnings of $1.988 million.

The Corporation's debenture holdings at December 31, 1986 totalled $127 million, up $5 million from the total at December 31, 1985.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through use of staff and facilities provided by the Crown Investments Corporation of Saskatchewan (CIC). The Corporation paid $24 thousand in 1986 for reimbursement of the costs to CIC of providing administrative services as well as for audit fees. The Directors do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in 1986. A table showing results of operations for the year under review, as compared to the previous year, is set out on page 4.

Municipal Financing Corporation of Saskatchewan

Comparative Table of Operations

For the Year Ended December 31

	1986	1985
	(thousands of dollars)	
Amount of debentures approved by the Corporation (net of subsequent reductions)	$14,889	$5,284
Prior year's purchase commitments carried forward	1,932	1,385
Total purchase commitments for the year	16,821	6,669
Purchases completed	13,310	4,737
Purchase commitments outstanding at the year end	$ 3,511	$1,932

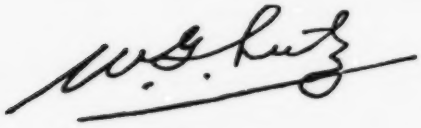
Municipal Financing Corporation of Saskatchewan

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan

I have examined the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 1986 and the statements of operations and reinvested earnings and cash flows for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



W. G. Lutz, F.C.A.,
Provincial Auditor.

Regina, Saskatchewan,
February 27, 1987

Municipal Financing Corporation of Saskatchewan

Statement of Financial Position

As at December 31

ASSETS	1986	1985
	(thousands of dollars)	
Current:		
Cash	$ 374	$ 299
Interest receivable	6,360	6,001
	6,734	6,300
Investments in municipal securities, at amortized cost (Market value 1986 — $145,730; 1985 — $133,841)	127,265	121,568
Debt issue costs	1,442	1,830
	$135,441	$129,698
LIABILITIES AND PROVINCE'S EQUITY		
Liabilities:		
Current:		
Notes payable — Province of Saskatchewan	$ 15,500	$ 10,000
Accounts payable and accrued liabilities	4,869	4,901
Debentures payable within one year	3,000	2,000
	23,369	16,901
Long-term debentures payable (Note 3)	108,724	111,724
Commitments (Note 4)		
Province of Saskatchewan's Equity		
Reinvested earnings	3,348	1,073
	$135,441	$129,698

(See accompanying notes)

Municipal Financing Corporation of Saskatchewan

Statement of Operations and Reinvested Earnings

For the Year Ended December 31

	1986	1985
	(thousands of dollars)	
Revenue		
Investment income	$16,386	$16,205
Expenses		
Interest on long-term debt	12,443	11,483
Interest on short-term debt	1,256	2,408
Amortization of debt issue costs	388	304
Administration	24	22
	14,111	14,217
Net earnings	2,275	1,988
Reinvested earnings (deficit), beginning of year	1,073	(915)
Reinvested earnings, end of year	$ 3,348	$ 1,073

(See accompanying notes)

Municipal Financing Corporation of Saskatchewan

Statement of Cash Flows

For the Year Ended December 31

	1986	1985
	(thousands of dollars)	
Cash provided by operating activities		
Net earnings	$ 2,275	$ 1,988
Add charges to operations not requiring a current cash payment:		
Amortization of discounts and premiums	16	5
Amortization of debt issue costs	388	304
	2,679	2,297
Net change in non-cash working capital balances related to operations*	(391)	4,404
Cash provided by operating activities	2,288	6,701
Cash provided by (used in) investment activities		
Purchase of municipal debentures	(13,399)	(4,762)
Proceeds from maturing municipal debentures	7,686	5,906
Cash provided by (used in) investment activities	(5,713)	1,144
Cash provided by (used in) financing activities		
Additions to notes payable — Province of Saskatchewan	5,500	—
Repayment of notes payable — Province of Saskatchewan	—	(57,000)
Additions to long-term debt net of debt issue costs	—	52,590
Repayment of long-term debt	(2,000)	(2,000)
Cash provided by (used in) financing activities	3,500	(6,410)
Net increase in cash during the year	75	1,435
Cash position (overdraft), beginning of year	299	(1,136)
Cash position, end of year	**$ 374**	**$ 299**
***Net change in non-cash working capital balances related to operations**		
Increase in interest receivable	$ (359)	$ (15)
Increase (decrease) in accounts payable	(32)	4,419
	$ (391)	$ 4,404

(See accompanying notes)

Notes to Financial Statements

December 31, 1986

1. **Accounting Policies**

   The Corporation's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

   Investments in Municipal Debentures

   Investments in municipal debentures are carried at amortized cost. The Corporation purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. A portion of the outstanding premiums and discounts is amortized each year against interest income. In this way effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity. This policy is only effected where the premium or discount, at the time of purchase, exceeds $250.

   Debt Issue Costs

   Debt issue costs are carried at cost less accumulated amortization to date. Debt issue costs are being amortized on a straight-line basis over the life of the related debt.

2. **Status of Corporation**

   The Municipal Financing Corporation was established in 1969 pursuant to the provisions of The Municipal Financing Corporation Act.

3. **Long-Term Debentures Payable**

Series	Year of Repayment	Interest Rate	1986	1985
			(thousands of dollars)	
7	1986	8 5/8	$ —	$ 1,000
4	1986	9 3/4	—	1,000
6	1987	9	1,000	1,000
11	1987	11 3/4	2,000	2,000
6	1988	9 1/8	1,000	1,000
11	1988	12	2,500	2,500
3	1989	9 7/8	1,000	1,000
4	1989	9 3/4	1,000	1,000
9	1989	11 3/4	2,000	2,000
11	1989	12	2,500	2,500
10	1989	15 7/8	2,000	2,000
	1990	7 4/10	28,014	28,014
9	1990	11 3/4	1,000	1,000
11	1990	12 3/4	4,000	4,000
6	1990	9 1/4	2,000	2,000
10	1990	15 7/8	2,000	2,000
5	1991	9 1/2	1,000	1,000
3	1991	9 7/8	1,000	1,000
10	1991	15 7/8	5,000	5,000
3	1992	9 7/8	1,000	1,000
7	1992	9 1/8	1,000	1,000
5	1992	9 1/2	1,000	1,000
10	1992	15 7/8	3,000	3,000
	1992	10 3/4	26,710	26,710
8	1993	9 5/8	1,000	1,000
4	1993	9 3/4	2,000	2,000
4	1994	9 3/4	1,000	1,000
7	1994	9 1/4	1,000	1,000

3. Long-Term Debentures Payable — *(Continued)*

Series	Year of Repayment	Interest Rate	1986	1985
			(thousands of dollars)	
8	1994	9 5/8	$ 1,000	$ 1,000
5	1994	9 5/8	1,000	1,000
7	1995	9 1/4	1,000	1,000
6	1995	9 1/2	1,000	1,000
8	1995	9 5/8	1,000	1,000
8	1996	9 5/8	1,000	1,000
5	1996	9 3/4	1,000	1,000
8	1997	9 5/8	1,000	1,000
5	1997	9 3/4	1,000	1,000
11	1997	12 3/4	1,500	1,500
9	1999	12	1,000	1,000
9	2000	12	1,000	1,000
11	2002	12 7/8	2,500	2,500
			111,724	113,724
Repayment required within one year			3,000	2,000
Net long-term debentures payable			$108,724	$111,724

Principal payments due on long-term debt for the next five years are as follows (in thousands of dollars):

1987	$ 3,000
1988	3,500
1989	8,500
1990	37,014
1991	7,000

4. Commitments

Prior to December 31, 1986 the Board of Directors had approved the purchase of debentures from certain local governments of which $3.511 million were not purchased before the year-end.

5. Related Party Transactions

Included in these financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.